



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 8/13/2001

GAIN Report #SP1033

Spain

Food Processing Ingredients Sector

Report

2001

Approved by:

Lloyd J. Fleck

U.S. Embassy

Prepared by:

Magdalena Escudero

Report Highlights:

This report provides an overview of the situation of Spain's food processing sector.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Madrid [SP1], SP

Table of Contents

I. Market Summary	Page 2 of 8
Advantages and Challenges for U.S. Suppliers to the Spanish Market	Page 3 of 8
II. Road Map for Entry Strategy	Page 4 of 8
A. Market Strategy	Page 4 of 8
B. Market Structure	Page 4 of 8
C. Company Profiles	Page 5 of 8
D. Sector Trends	Page 7 of 8
III. Competition	Page 7 of 8
IV. Best Products Prospects	Page 7 of 8
V. Post Contact and Further Information	Page 8 of 8

I. Market Summary

Spain is both politically and economically stable. Its GDP grew about 3.5 percent in 2000 and a further increase of 3 percent is expected for 2001. This growth has permitted a further drop in unemployment, which has been declining for several years; however, its current level of 12.7 percent is still higher than in most other EU countries. Inflation has been relatively low, reaching 4.2 percent in 2000; it should drop to about 2.0 percent for 2001. Spain is among the first group of EU countries accepted in the monetary union. Per capita annual income in 2000 was estimated at about 15,233 Euros (14,149 Euros in 1999).

Rising income, coupled with a decrease in unemployment, has allowed more expenditure on basic as well as on luxury foods. Consequently, higher-quality and new niche market products have greater possibilities in the Spanish market.

Spain's population is about 40.2 million. Like much of the rest of Europe, the country's demographics have been affected by decades of lower birth rates (0.2 percent). As a result, the population is aging: by 2005, some 20 percent of all Spaniards will be over 65 years old. Family size is also shrinking: the "normal" family will be comprised of at most four people, with two members of the family working. Many homes will be comprised of only one person.

Great labor force participation, particularly by women, is having a large impact on food purchasing patterns. While individuals' purchasing power is growing, the time available to buy and prepare foods is being reduced. Consumers are increasingly able, and willing, to buy foods which require little preparation time.

Although the younger generation of Spaniards tends to consume more meat and less vegetables, the traditional "Mediterranean diet" is increasingly considered as a healthy alternative and will continue to play an important role in the country's food consumption patterns. Official figures indicated that during 2000 there was an increase in consumption of fresh fruits and vegetables.

The increasing number of Spaniards who travel abroad bring back new tastes, thus increasing the demand for new products and for ethnic foods and restaurants. The millions of foreign tourists who flood into the country each year also want some familiar food and beverages.

Spanish consumers are very sensitive about food safety issues, particularly in the aftermath of the European Union's recent problems with BSE and other animals diseases. Potential food safety problems are widely reported in the media and usually receive a quick response from public health officials.

Since Spain joined the EU in 1986, the food processing industry has been making large investments to improve productivity and quality in order to compete in the European market. About 25 to 30 percent of the volume of business is now controlled by large international companies. The high standards needed to compete in the EU market have caused a relentless pursuit of tighter quality controls. Most larger companies have been able to spread the cost of quality controls over large production runs. Many smaller companies have difficulties in keeping up, due to the relatively higher costs to implement these measures.

The significant growth in real consumer income, coupled with the changes in demographics noted above, have altered the marketing mix for food products. Once a value market, where price was the predominant factor, Spain is becoming a mature consumer market. Customer service, convenience and continuous product improvement are increasingly important considerations.

<u>Area & Population</u> (2000)			
Total Area (million Ha.)	50.6	Total Population (million)	40.2
<u>Employment</u> (2000)		<u>Growth</u>	
Total Labor Force (million)	16.9	GDP (U.S. billion dollars) (2000)	558.3
- Men in labor force	10.1	GDP Growth (2001- estimated)	3.4
- Women in labor force	6.8	Per Capita GDP on purchasing	
Employed (million)	14.6	power parity basis in \$US	17,300
Unemployed	1.5	Per Capita GDP in Euros	15,233
Unemployment (% labor force)	12.7	CPI (2001 estimate)	2.0

Advantages and Challenges for U.S. Suppliers to the Spanish Market

Advantages	Challenges
There are some niche markets, example: Tex-Mex products	High promotion costs to introduce new products
High quality of U.S. products	Certain products have to pay high customs duties to enter EU countries.
Increase of imports of U.S. seafood products.	U.S. food products have to comply with EU labeling and packaging
Increasing demand of American style food products in fast food restaurants	High shipping costs from the U.S.
Growing demand of organic, low-fat and sugarless products.	Reluctance to use products containing genetically modified ingredients

II. Road Map for Entry Strategy

A. Market Strategy

The Spanish food processing industry is the fifth largest in Europe. Domestically, it is the principal industrial group, generating one fifth of Spain's total industrial production and employing 17 percent of the labor force. Raw materials, which account for 58 percent of total production costs, are sourced mainly from Spain and other European countries. However, weather problems or changes in EU production policy can reduce supply availability in Europe and favor imports from third countries. The continuing decline of fish supplies in Spanish and EU waters will almost certainly encourage import of supplies from outside the area. .

The Spanish market is a series of regional markets. Madrid and Barcelona, the two largest population centers, are the main markets, and the headquarters for the majority of agents, distributors, importers and government-controlled buying agencies. A U.S. exporter new to the market would be well advised to appoint an agent or distributor or to establish a subsidiary. A local representative would be aware of the different consumption attitudes and preferences in each of Spain's 17 autonomous regions.

B. Market Structure

Total food production in 2000 was valued at 55 billion Euros, this is a current value increase of 2.1 percent, but a decrease of .91 percent in total production. Spanish consumers spent 56.49 billion Euros, representing an increase of 6.8 percent from 1999, while total food products consumed increased by 1.2 percent. (The difference between production and consumption can be explained by the fact that not all fresh fruits and vegetables undergo any industrial process and imports and exports of processed foods are also to be taken into account.) In 2000 total exports of processed food products were 8.5 billion Euros, while imports were only 8.1 billion Euros

The increase in value for less product is the consequence of an older population, less amount is required to fulfill their daily intake needs. Also people are concern about the image, decreasing the intake, but eating more expensive products. The products that experienced a higher increase were dairy products, nuts, ready-to-eat meals, sauces, wines with appellation of origin and spirits, dairy products and juices. Total grocery sales in 2000 through food distribution chains or groups were 41.5 billion Euros, this is a seven percent increase from the previous year. 14.9 billion Euros, or about 26.4 percent of total food expenses took place through the HRI sector.

There were 36,361 traditional outlets selling food in 2000. While the expansion in the number of large supermarkets and hypermarkets has begun to slow, the number of medium-sized supermarkets and discount outlets is accelerating.

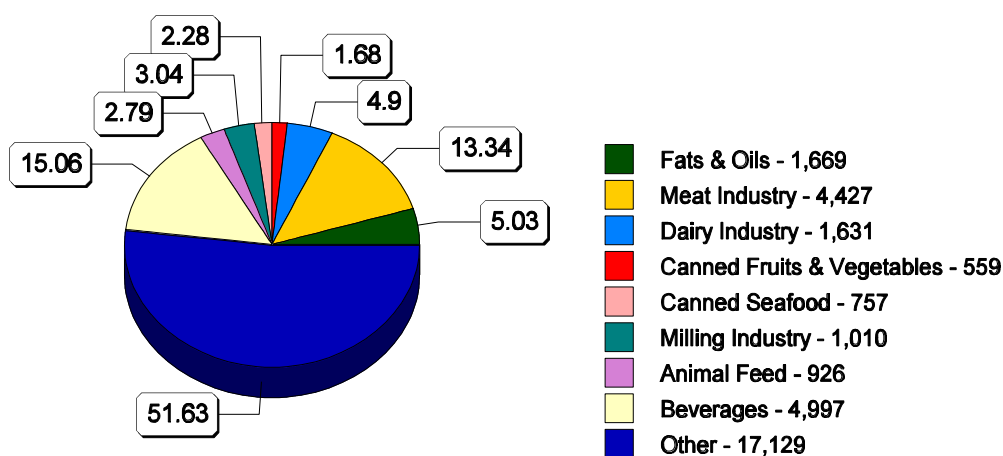
The top five food distribution groups hold more than half of total sales and the consolidation of the industry will likely increase their market share in future. Recent mergers include Promodes and Carrefour, which became Grupo Carrefour in 1999, with a combined market share of 22 percent of total retail grocery sales. In addition, several small supermarkets have been bought by larger groups, and Caprabo, a Spanish company, is expanding in an attempt to compete with the Carrefour group. Furthermore, smaller grocery retail chains continue to be taken over by larger companies. Currently, there are only two large groups: Euromadi Iberica and IFA Española.

The consolidation of the industry has caused fierce competition, lower prices, and narrower profit margins. It is also driving down raw materials prices. Food producers say that the growing purchasing power of the big food distribution groups allows them to extract lower prices from farmers.

C. Company Profiles

There were 33,174 food processing plants in 2000. This number has been declining in recent years as many small companies have been absorbed by larger ones; nevertheless, the sector is still highly fragmented. About 65 percent are small companies with 1 to 5 workers, while only 5 percent have more than 50 employees.

Food Processing Industries



Fresh products, seafood, fruits and vegetables are distributed through the 22 wholesale markets distributed around Spain. About three quarters of total food is consumed at home, while the remaining quarter is consumed through the HRI sector.

About half of total fresh products, such as fruit, vegetables, meat and seafood, are sold through traditional stores; however, supermarkets and hypermarkets are increasing their market share of these products.

Purchases of grocery products are managed directly by each distribution group. Processed products are mainly sold through supermarkets (41%), hypermarkets (24.6%) and small self-service outlets. The largest share of beverages is sold by the HRI sector.

Main Companies Operating in the Food Processing Industry - Spain

Company & Prod. Types	Sales in 1999 Mil. Euros	End-Use Channels	Procurement Channels
NESTLE España, S.A, Processed Foods in general	1,070	Retail & HRI	Importers, Direct
Campofrio Alimentación, S.A. Meat Products	819	Retail & HRI	Importers, Direct
Azucarera Ebro Agrícolas Processed Foods in general	798	Retail & HRI	Importers, Direct
Danone, S.A. Dairy Products	747	Retail & HRI	Importers, Direct
Leche Pascual, S.A. Dairy, Brkfst cereal, juices	633	Retail & HRI	Importers, Direct
Pedro Domecq, S.A. Alcoholic Beverages	594	Retail & HRI	Importers, Direct
Cobega, S.A. Refreshments	589	Retail & HRI	Importers, Direct
Cargill España, S.A. Fats & Oils	541	Retail & HRI	Importers, Direct
Koipe, S.A. Fats & Oils	540	Retail & HRI	Importers, Direct

D. Sector Trends

Even before Spain's accession into the EU, many foreign food companies were buying or doing joint ventures with Spanish food processing companies. This trend continues. Companies totally or partially foreign-owned account for 25 to 30 percent of total food sales. The penetration is even great in the beverage sector, where foreign companies generated about 44 percent of total sales.

Spanish exports of agricultural products grew by 6.3 percent in 2000, while imports grew by 7.4 percent. The ever-increasing consumer demand for a wider variety of new products, including low-fat, low cholesterol, and healthier foods. In general imports and exports of processed products are almost at the same level. Although, exports are slightly larger than imports, in the past the opposite was true. The trend was reversed due to the increasing development of the Spanish food processing industry. In the last couple of years imports growth rate was lower in comparison to the previous years due to an unfavorable Euro/\$ exchange rate.

The number of ethnic food restaurants is increasing, this represents a demand of tex-mex products, for instance.

III. Competition

Spain is a large producer of agricultural products. During the past few years, harvesting and handling of raw materials has improved. While production of processed food is based on the availability of raw materials, most of the inputs used by the food industry are of Spanish or EU origin.

IV. Best Products Prospects

A. Products present in the market which have good sales potential are as follows:

- Seafood in general, and lobster, monkfish, whiting, hake, squid, salmon, in particular
- Tree nuts: almonds and walnuts
- Tex-Mex products
- Bourbon
- Ready to Eat products
- Snacks
- Low-cholesterol, sugar-free products

B. Products not present in significant quantities but which have good sales potential are as follows:

Fresh fruit: pink grapefruit, apples, mangoes
Surimi
Ingredients to prepare fruit & vegetable juices
Ingredients to prepare extruded snacks

C. Products are not present because they face significant barriers:

All poultry and red meat products.

V. Post Contact and Further Information

U.S. Address:

American Embassy Madrid
Foreign Agricultural Service
PCS 61 - (Box 20)
APO AE 09642

International Address:

American Embassy Madrid
Foreign Agricultural Service
Serrano, 75
28006 Madrid - SPAIN

Phone: 34 91 564 5275

Fax: 34 91 564 9644

e-mail: AgMadrid@fas.usda.gov

For further information check the "Agricultural Affairs" home page on the U.S. Embassy Madrid web site: www.embusa.es

Spain's Federation of Food and Beverage Producers has links many member associations:
www.fiab.es

NOTE: Average exchange rate: 1998: 149.40/\$1; 1999: 156.33/\$1; 2000: 165.20/\$1.
Current exchange rate: 189 pesetas/\$